

PROPOSED RESOLUTION

Resolution W-5120
WD

Agenda ID #15290

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5120
December 1, 2016

RESOLUTION

(RES. W-5120) EAST PASADENA WATER COMPANY (EPWC).
ORDER AUTHORIZING A MONTHLY SURCHARGE OF \$1.38,
ADDED TO THE SERVICE CHARGE AT THE APPLICABLE
METER SIZE RATIO, OVER 12 MONTHS TO RECOVER \$96,055
RECORDED IN EPWC'S CONSERVATION LOST REVENUE
AND CONSERVATION/ RATIONING MEMORANDUM
ACCOUNTS TO BE PAID BY THE RATEPAYERS.

SUMMARY

By Advice Letter (AL) 92, filed on July 29, 2016, East Pasadena Water Company (EPWC) seeks to recover \$96,055 in lost revenues and increased operational costs recorded in the company's Conservation Lost Revenue Memorandum Account (CLRMA) and Conservation/Rationing Memorandum Account (CRMA) from the August 31, 2015 through June 30, 2016 time period.

This Resolution authorizes a monthly surcharge of \$1.38, added to the service charge at the applicable meter size ratio, over 12 months to recover \$96,055 in lost revenues and increased operational costs recorded in EPWC's CLRMA and CRMA for the September 1, 2015 through June 30, 2016 time period.¹ The \$96,055 is the net combined CLRMA and CRMA balance after adjusting by \$115,316 for offsetting volume related and purchased power expenses and crediting the \$137,047 net over-collection balance from EPWC's existing balancing accounts to reduce the number of surcharges EPWC must bill its customers.

1. By Advice Letters 87 and 88-A, effective June 2, 2015, EPWC's CRMA and CLRMA were approved, respectively, in accordance with Commission Res. W-4976 and the adopted Drought Procedures in Standard Practice U-40.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

BACKGROUND

EPWC, a class B water utility, requests authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover \$96,055 in lost revenues and increased operational costs resulting from implementing Tariff Rule 14.1, EPWC's Water Shortage Contingency Plan (WSCP), in compliance with Commission Res. W-5041. Res. W-5041 ordered Class A and B water utilities to implement water use reduction programs to achieve a 25% aggregate statewide reduction in potable urban water use mandated by the State Water Resource Control Board's (SWRCB) Emergency Drought Regulation (Emergency Regulation).²

EPWC's Lost Revenues

EPWC's lost revenues for the September 1, 2015 through June 30, 2016 time period totaled \$358,581, before subtracting \$115,316 for purchased power and other volume related expense savings resulting from a lower volume of water sales. After adjusting for these expenses, EPWC's CLRMA balance is \$243,265. Additionally, per the instructions provided in the Drought Procedures in Standard Practice (SP) U-40³, EPWC subtracted \$25,275 from the CLRMA balance, the equivalent of 20-basis points (0.21%) of EPWC's most recently adopted return on equity of 10.60%, resulting in a net CLRMA balance of \$217,990.

In addition, EPWC requests to offset the CLRMA balance by \$137,047, the net over-collection balance from the company's existing balancing accounts,⁴ listed below, through June 30, 2016 to reduce the number of surcharges EPWC must bill its customers:

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2. Res. W-5041, Ordering Paragraphs 1, 2, and 4.
 3. Drought Procedures, SP U-40, paragraph 36, pg. 12.
 4. GO 96-B, Industry Rule 7.3.1 provides for approval of amortization of balancing accounts through Tier 1 Advice Letter filings and are generally subject to disposition by staff pursuant to General Rule 7.6.1.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

(under) / over collected

Tariffed balancing account over collected ⁵	\$ 13,644
Purchased power balancing account (under collected) ⁶	(35,959)
Pumping assessment balancing account over collected ⁷	153,337
Purchase water balancing account over collected ⁸	<u>6,025</u>
	\$ 137,047

By AL 92, EPWC also requests to amortize \$15,112 from its CRMA for expenditures the company incurred implementing its WSCP to comply with Res. W-5041.

EPWC's present rates became effective on June 4, 2015 by Resolution W-5039 which authorized a general rate increase of \$357,854 or 12.88% for Test Year 2015.

NOTICE AND PROTESTS

AL 92 was served on the service list on July 26, 2016, in accordance with the provisions of G.O. 96-B. Industry rule 3.1 requires a notice to customers by publishing a legal notice in a newspaper of general circulation in the area. A notice of EPWC's rate

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5. The \$13,644 in EPWC's tariffed balancing account is the balance from the previously authorized amortization of the company's existing balancing accounts.
 6. EPWC's Purchased Power Balancing Account (PPBA) tracks the difference between actual and authorized purchased power costs. The \$35,959 under-collected PPBA balance is for the June 2014 through June 2016 time period, and \$34,355 of the under-collected revenue amount occurred prior to the currently authorized rates that became effective on June 4, 2015.
 7. EPWC's Pumping Assessment Balancing Account (PABA) tracks the difference between authorized and actual pumping assessment costs based on the amount of groundwater the company pumps from its water wells. The over-collected amount is for the August 2015 through June 2016 time period.
 8. EPWC's Purchased Water Balancing Account (PWBA) tracks the difference between actual and authorized purchased water costs. The \$6,025 PWBA balance is for the September 2014 through June 2016 time period.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

increase request was published on August 26, 2016 in the Pasadena Star News newspaper.

No protests have been received.

DISCUSSION

EPWC's Lost Revenues

Commission Res. W-5041 ordered Class A and B water utilities to implement water use reduction programs to achieve a 25% aggregate statewide reduction in potable urban water use mandated by the SWRCB's Emergency Regulation. EPWC complied with the order and for the September 1, 2015 through June 30, 2016 time period, EPWC's customers reduced their water consumption by an average of 24.14% relative to 2013 water usage over the same time period.⁹ However, relative to the adopted water sales authorized by Res. W-5039, EPWC's customers reduced their water consumption by an average of 138,716 CCF or 18% for the September 1, 2015 through June 30, 2016 time period. This reduction in consumption or water sales resulted in a \$358,581 revenue shortfall from the authorized revenues granted by Res. W-5039 before adjusting for purchased power and other volume related expenses to account for the lower volume of sales as further discussed below.¹⁰ The Water Division (WD) reviewed EPWC's lost revenues calculation and concurs with EPWC's computation.

EPWC's Purchased Power and Other Volume Related Expenses

EPWC calculated a cost savings of \$115,316 from reduced purchased power and other volume related expenses resulting from reduced water consumption and lowered water sales. This difference was derived from the authorized amounts of \$210,832 and \$430,719 for purchased power and other volume related expenses, respectively, and 771,790 hundred cubic feet (CCF) of adopted water sales authorized by Res. W-5039.

9. Based on the company's reported water production data to the Commission and SWRCB.

10. EPWC's lost revenues were computed by taking the difference between recorded and adopted monthly sales multiplied by adopted quantity charge for the September 1, 2015 through June 30, 2016 time period.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

Using these adopted quantities, EPWC computed a variable cost of \$0.8313 per CCF.¹¹ EPWC then multiplied the authorized variable cost times the quantity of 138,716 CCF in reduced water sales to compute the \$115,316 in purchased power and other volume related expense savings. The WD concurs with EPWC's approach for calculating the variable cost and the \$115,316 in purchased power and volume related expense savings.

EPWC's Balancing Accounts

The WD reviewed the accounting entries and balances for EPWC's Tariffed Balancing Account, Purchased Power Balancing Account, Purchase Water Balancing Account, and Pumping Assessment Balancing Account (referred herein as Balancing Accounts) through June 30, 2016, and found no discrepancies in the accounting procedures and entries for these Balancing Accounts. Accordingly, the WD finds that EPWC properly accounted for revenues and expenses recorded in these Balancing Accounts and concurs with the \$137,047 in net over-collection balance for these Balancing Accounts through June 30, 2016. The WD also supports using the over-collected balance to offset lost revenues and increased operating expenses to reduce the number of surcharges the company must bill its customers.

EPWC's Conservation/Rationing Memorandum Account

By AL 92, EPWC requests to amortize \$15,112 from its CRMA for expenditures the company incurred implementing its WSCP to comply with Res. W-5041 which included expenses for: 1) preparation and advice letter filing for EPWC's WSCP in Tariff Schedule 14.1; 2) preparation and mailing of the customer notice to inform customers about the WSCP; and 3) EPWC's August 3, 2015 public participation meeting to inform customers about the WSCP and ways they could conserve water.

Amortization of EPWC's CRMA and CLRMA

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to meet the following standards:

- 1) The utility acted prudently when it incurred these costs;
- 2) The utility paid reasonable amounts for these costs;

11. The sum of the authorized purchased power and other volume related expenses, \$641,551 (\$210,832+\$430,719), divided by 771,770 CCF.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

- 3) The memorandum account costs are not covered by other authorized rates; and
- 4) It is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates (see e.g., Ordering Paragraph 5 of Res. W-4824).

In this instance, EPWC is seeking to recover the costs and lost revenues recorded in its CRMA and CLRMA, respectively.

Based on the requirements listed above, the WD finds that EPWC acted prudently in incurring the costs and lost revenues recorded in its CRMA and CLRMA. The costs and lost revenues resulted from EPWC's compliance with Res. W-5041. EPWC acted prudently by: 1) preparing and implementing the company's WSCP in Tariff Rule 14.1; 2) communicating and informing customers about the WSCP and the need to conserve water; and 3) conducting a public participation meeting to inform customers about the company's WSCP and respond to its customers' questions and concerns. For these reasons, the WD finds that EPWC acted prudently when it incurred the costs and lost revenues recorded in its CRMA and CLRMA, respectively.

With respect to the second standard, the WD reviewed the \$15,112 recorded in EPWC's CRMA and the WD found these expenditures to be prudent and reasonable. Furthermore, as previously discussed, the WD reviewed EPWC's lost revenues and concurs with company's computation, including the purchased power and other volume related expense adjustments to account for the lower water sales.

With respect to the third standard, the WD reviewed EPWC's last GRC, authorized on May 21, 2015 by Res. W-5039 and has ascertained that the costs recorded in EPWC's CRMA are not already covered by the rates authorized in Res. W-5039. The WD also reviewed the authorized revenue requirement from Res. W-5039 and verified EPWC's lost revenues resulting from the implementation of its WSCP and reduced water sales.

The WD finds it appropriate for ratepayers to pay for the costs and lost revenues recorded in EPWC's CRMA and CLRMA, since these costs and lost revenues resulted from EPWC's implementation of its WSCP to comply with Commission Res. W-5041. Accordingly, it is appropriate for ratepayers to pay for these costs and lost revenues in addition to otherwise authorized rates.

EPWC should therefore be granted authority to transfer the amounts recorded in its CRMA and CLRMA to a balancing account for recovery. Furthermore, EPWC should be permitted to recover the \$96,055 in this balancing account by implementing the monthly surcharge included in Tariff Schedule No. 1, General Metered Service, in

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

Appendix A of this Resolution, for a period of 12 months. Recovery of the \$96,055 from lost revenues and increased operating expenses will not result in a rate of return greater than the last authorized for EPWC.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day period for public review and comment.

SAFETY

The resolution provides adequate revenues to the utility so that it can provide safe and reliable water service to its customers. EPWC is in compliance with the SWRCB's Division of Drinking Water applicable water quality standards and regulations for safe drinking water.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

FINDINGS

1. By Advice Letter 92, filed on July 29, 2016, East Pasadena Water Company (EPWC) seeks to increase rates to recover \$96,055 in lost revenues and increased operational costs resulting from implementation of Tariff Rule 14.1, Water Shortage Contingency Plan (WSCP), as recorded in its Conservation Lost Revenue Memorandum Account (CLRMA) and Conservation/Rationing Memorandum Account (CRMA) for the August 31, 2015 through June 30, 2016 time period.
2. Commission Resolution (Res.) W-5041 ordered Class A and B water utilities to implement water use reduction programs to achieve a 25% aggregate statewide reduction in potable urban water use mandated by the State Water Resource Control Board's Emergency Drought Regulation.
3. EPWC complied with Res. W-5041 and implemented Tariff Rule 14.1, EPWC's WSCP, and customers reduced their water consumption by an average of 138,716

PROPOSED RESOLUTION

Resolution W-5120

December 1, 2016

WD

hundred cubic feet (CCF), or 18% relative to the water sales authorized by Res. W-5039, during the September 1, 2015 through June 30, 2016 time period.

4. The reduction in consumption and reduced water sales resulted in a \$358,581 revenue shortfall from the authorized revenues granted by Res. W-5039 before adjusting for the reduced purchased power and other volume related expenses to account for lowered water sales.
5. EPWC's savings in purchased power and other volume related expenses resulting from lowered water sales were \$115,316 for the September 1, 2015 through June 30, 2016 time period.
6. In accordance with the Drought Procedures in Standard Practice (SP) U-40, EPWC subtracted \$25,275 from the CLRMA balance, the equivalent of 20-basis points (0.21%) of EPWC's most recently adopted return on equity of 10.60%, resulting in a net CLRMA balance of \$217,990.
7. EPWC's requests to offset the CLRMA balance by \$137,047, the net over-collection balance from the company's existing balancing accounts through June 30, 2016.
8. EPWC acted prudently in incurring the costs and lost revenues recorded in its CRMA and CLRMA.
9. The expenses recorded in EPWC's CRMA of \$15,112 are prudent, reasonable, and not covered by other authorized rates.
10. EPWC acted prudently in implementing its WSCP in order to comply with Commission Res. W-5041.
11. EPWC's request to amortize the \$96,055 from increased operating expenses and lost revenues resulting from implementation of its WSCP is reasonable and should be granted.
12. AL 92 was served on July 26, 2015, in accordance with the provisions of General Order 96-B. A notice of the proposed surcharge was published on August 26, 2016 in the Pasadena Star News newspaper and no protests were received.
13. EPWC should be permitted to transfer the amounts in its CRMA and CLRMA to a balancing account for recovery.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

14. EPWC should be permitted to recover the amounts in the balancing account by imposing the surcharge included in Tariff Schedule 1, General Metered Service, in Appendix A of this resolution, for a period of 12 months.
15. This surcharge will not result in a rate of return greater than the last authorized for EPWC.

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

THEREFORE, IT IS ORDERED THAT:

1. East Pasadena Water Company is permitted to transfer the \$96,055 from its Conservation Lost Revenue Memorandum Account and Conservation/Rationing Memorandum Account to a balancing account for recovery over a period of 12 months. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. East Pasadena Water Company is permitted to recover the \$96,055 in the balancing account reflected in Ordering Paragraph 1 above by imposing the surcharge included in Tariff Schedule No. 1, General Metered Service in Appendix A of this Resolution, for a period of 12 months.
3. Authority is granted under Public Utilities Code Section 454 to East Pasadena Water Company to file a supplemental advice letter 92 with the revised surcharge rate schedule and concurrently cancel its presently effective Schedule No. 1, General Metered Service. The effective date of the revised rate schedule shall be five days after the date of filing.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on December 1, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

Appendix A East Pasadena Water Company

Schedule No. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Gabriel, Los Angeles County, and as described on the service area map.

RATES

Charge
Per CCF

Quantity Rates:

All water used, per 100 cu. ft. _____ \$ 2.585

Monthly Service Charges:

		Per Meter		Per Meter	
		Per Month	Surcharge (2)	Per Month	
For	5/8x3/4-inch meter _____	\$ 16.05	1.38	\$ 17.43	(I)
For	3/4-inch meter _____	24.08	2.07	26.15	
For	1-inch meter _____	40.13	3.46	43.59	
For	1-1/2-inch meter _____	80.25	6.90	87.15	
For	2-inch meter _____	128.40	11.04	139.44	
For	3-inch meter _____	240.75	20.71	261.46	
For	4-inch meter _____	401.25	34.51	435.76	(I)

The service charge is applicable to all service. It is a readiness to serve charge to which is added the monthly charge, computed at the Quantity Rate, for water used during the month.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. The net balance accumulated in the Conservation Lost Revenue and Conservation/Rationing Memorandum Accounts to be amortized through a monthly surcharge applied to the applicable service charge over a period of 12 months from the effective date of supplemental Advice Letter No. 92-A. (N)
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(N)

PROPOSED RESOLUTION

Resolution W-5120
WD

December 1, 2016

EAST PASADENA WATER COMPANY ADVICE LETTER NO. 92 SERVICE LIST

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